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China and America's common energy interests

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Together, US and Chinese policies are distorting global energy markets. The differing perceptions in Washington and Beijing of the strategic importance of energy supply are pushing prices ever higher. Unless the US and China align their interests as energy consumers, this distortion will intensify a growing geopolitical rivalry.

US-Chinese competition for access to oil markets is not the issue. In principle, the global energy market mechanism should prevent such competition from upsetting prices. But the US and China understand their energy interests in different ways. China views long-term agreements to lock up energy supply as a means of achieving its most basic objectives: nourishing its economic expansion and avoiding a financial crash that could provoke political unrest. China's energy demand is growing at stunning speed. It has to import twice the amount of oil it did just five years ago. If its oil consumption grows at an average of 7 per cent a year (as it has since 1990), China will need 21m barrels a day by 2022 - what the US consumes today.

That is why energy agreements with new suppliers have become a Chinese priority. To secure long-term supply, Beijing often pays substantially above market rates to get the deals done. That distorts market prices.

In addition, China looks to markets where competition is less intense. This leads Beijing to cut deals with regimes that are politically isolated and therefore anxious for access to a market such as China's. That is where the conflict really begins, because it is the US that wants these regimes isolated, while China provides them with both cash and political cover.

For example, China has now become the major obstacle to multilateral pressure on Iran to renounce its nuclear ambitions. In November, China signed a memorandum of understanding for a Dollars 70bn agreement to buy 250m tons of liquefied natural gas from Iran over 30 years. As a result, China is likely to block any US attempt to use the United Nations Security Council to impose sanctions on Iranian oil and gas.

China's search for energy supplies has also complicated US efforts to stop what the Bush administration calls state-sponsored genocide in the Darfur region of Sudan. Southern Darfur is rich in oil, and the Chinese National Petroleum Corporation holds the largest oil concession there. And, because China's navy is not yet able to challenge US naval supremacy in Asia, a security crisis over, say, Taiwan, might lead the US to blockade China and cut off its access to oil shipped in from the Middle East and north Africa. To reduce its vulnerability to such a scenario, China is considering building an oil pipeline across Burma - a state the Bush administration has included

on its list of "outposts of tyranny".

At the same time, the Bush administration uses energy policy to pursue its geostrategic interests. Washington supports pipeline diversification. But it wants pipeline networks that avoid regimes it does not like. By refusing for political or security reasons to support cheaper pipeline networks, the US too is distorting the oil market.

From an economic perspective, the interests of the US and China should be in harmony. Together, they consume a large and growing share of the world's oil. Both have an obvious interest in keeping prices low. If China were less compelled by its energy demand to take actions that bring it into conflict with the US, both sides would profit. The US should help China become more energy efficient. China will have less need to form relationships with governments the US wants to isolate, will be less dependent on energy imports, and oil markets will move closer to an equilibrium price.

The US can build on the US-China Renewable Energy Development and Energy Efficiency Protocol to help China develop alternative sources of energy. American companies that provide China with energy efficiency technology will benefit directly. Washington could also help China develop an Asian strategic oil reserve. China imports half its oil from the volatile Middle East and is therefore vulnerable to sudden political shocks. With western financing, China could stock a 90-day emergency supply of oil. Its current reserve is less than 30 days.

Aligning US and Chinese interests would allow them to co-ordinate resistance to profiteering on world energy markets and to take the edge off their geopolitical rivalry. It also would remove much of the current distortion from oil prices. But if Washington and Beijing continue to work at cross-purposes the conflict will grow and all who import energy will pay the price.

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